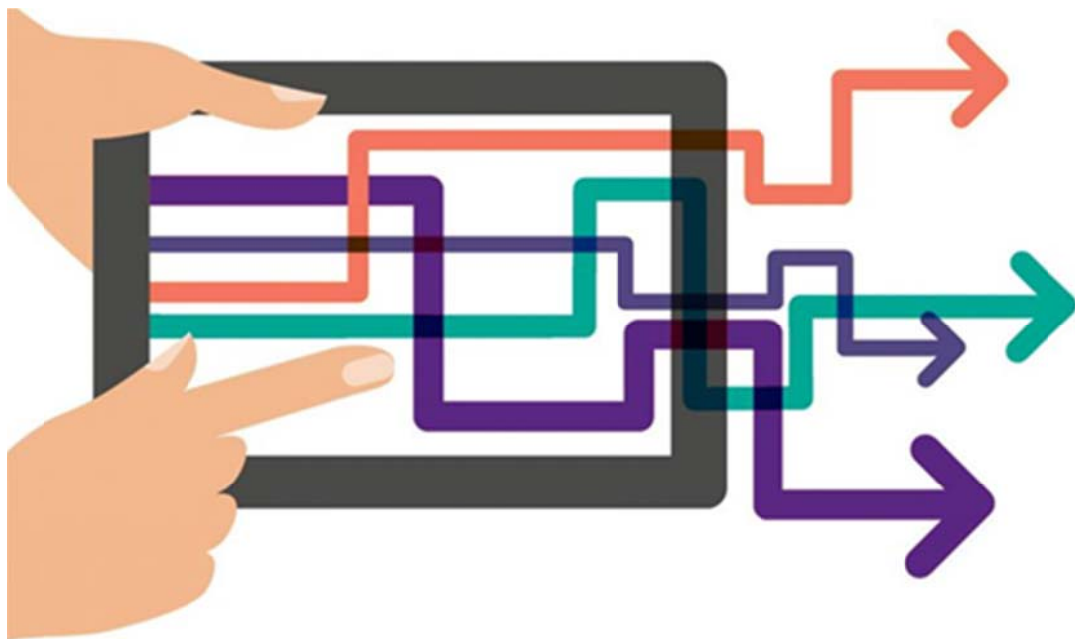




Helping smaller businesses and their owners  
manage their accounting, business and taxation

## **Making Tax Digital Update 2017**

The biggest change in the tax system in 20 years



A guide written by All Paul Limited for our smaller Owner-Managed Business clients on the changing landscape of digital tax administration in the UK

# Introduction

## What is Making Tax Digital?

The biggest change for businesses, which has yet to come into effect, is reporting under the new tax administration system Making Tax Digital (MTD).

The introduction of MTD is one of the biggest changes in tax administration for 20 years, following the introduction of Self-Assessment. The underlying tax rules are not changing.

MTD is the name given to the Government's plan to move to a fully digital tax system by 2020. With some limited exceptions, businesses will be required to keep their records digitally and to make quarterly reports, of their business income, expenses and profits, to HMRC through their digital tax account.

MTD was announced in March 2015 by the former Chancellor, George Osborne. The headline announcement was that the completion of an annual Self-Assessment Tax Return would be abolished.

For many businesses, MTD will represent significant extra administration work together with the cost of buying and learning how to use an appropriate software package and possibly extra accountancy fees.

Initially, this is expected to be a digital submission of summary totals of income, expenses and profit or loss. In time, this may lead to submission of every single accounting transaction of the business in the quarter to HMRC.

Employers have for several years been submitting payroll data for their employees every payday under the Real Time Information (RTI).

Bank and building societies etc are also submitting details to HMRC of interest paid to tax payers on a regular basis.



All this information will be consolidated in a taxpayer's Business or Personal Tax Account. Therefore, rather than having to find details of a taxpayer's annual taxable income after the end of the tax or accounting year and then preparing a Self-Assessment Tax Return, most of this information regarding taxable income will already have been prepopulated into their tax account during the tax year.

A fifth submission will be made within the usual 9 or 10 months after the end of the tax year to deal with tax adjustments and corrections to the quarterly submissions. HMRC have stated that taxpayers will therefore check and confirm that the information already uploaded to their Tax Accounts is correct rather than complete a Tax Return from scratch.

The laughable thing is that HMRC thinks that this will only cost businesses around £200 a year. Most accountants find HMRC's comments completely unbelievable and it demonstrates their total lack of understanding in how small businesses currently keep their accounting records. Just the initial four quarter-end submissions are going to take time to review and make changes to before making the submissions. If you do that five times a year rather than the current once a year then that is a lot more work.

Businesses will also need to buy new software, train their staff and for most small businesses completely change their recordkeeping e.g. from manual paper records or spreadsheets to full blown accounting software.

## What this means in practice?

MTD has been a major talking point for accountants and tax advisors for two years. HMRC have stated that business will need to do their recordkeeping in software that is capable of performing quarterly submission. The rationale is that this will reduce tax-leakage and generate more tax collection by HMRC.

Many small businesses use Excel spreadsheets to manage their businesses and report their income and expenditure. Initially, HMRC said that they could not accept spreadsheets as a digital method of recordkeeping and reporting under MTD. More recently, they have relaxed this requirement following revolt by small businesses and their advisors. The latest position is that HMRC will accept spreadsheets, but only in conjunction with digital software capable of making the MTD submissions. How this will actually work in practice is no clearer.

What is very clear is that the Government Gateway where individuals and businesses submit their Self-Assessment Tax Returns, PAYE returns, VAT returns etc and where they can check on their tax affairs will cease to be available in the near future.

Digital submissions are going to be compulsory in the future. This will necessitate the use of commercially available software. HMRC have already stated that free software will not be provided by them.

Those used to submitting payroll, and possibly VAT returns, through software, may already be familiar with a similar process. At the end of the quarter, a business will click the 'MTD' button and everything will magically be uploaded to HMRC. Well, that is the theory!

Our biggest concern is that businesses and taxpayer just press the 'MTD' button without thinking. Our own experience is that clients often post transactions to the wrong code or put them in the wrong column of a spreadsheet. For smaller businesses, they often mix private and business transactions and use their business bank account like a personal piggy bank.



Even clients with their own limited companies, where a higher level of business knowledge usually exists, often misunderstand salaries, dividends, expenses and loans to and from the company. The old adage 'garbage in equals garbage out' comes to mind. The MTD system is also, in time, to lead to payment of tax based on the quarterly profit submission.

It is currently difficult to advise our clients exactly what to do with regards to their accounting records. Any client that currently uses a paper based cash book and other similar ledgers will see the greatest change. We are currently waiting on the major software companies e.g. Sage, QuickBooks to release MTD compliant versions of their software.

Our advice is therefore to now start using one of the leading software providers if you are used to using accounting software. They should then release a MTD compliant version in the near future.

For clients using spreadsheet who do not wish to change what they are doing quite yet, we suggest keeping abreast of the changes as we approach April 2018 or 2019 as applicable

We may be able to attach your spreadsheets to digital submissions. After these dates, we may be able to import your Excel lists of income and expenditure into our own MTD software and therefore make the required submissions on your behalf. As we will only have one month after the end of quarter, we will not be able to use this method unless our clients provide their Excel files to us very shortly after the quarter end and in an agreed format.

## The new MTD timetable

Following the announcement in the Spring Budget the time table is a little clearer.

In a move almost universally welcomed in the accounting profession, the Chancellor bowed to public demand by announcing a 12-month delay in the original MTD timeline for unincorporated businesses and landlords, with turnover more than £10,000, but less than the VAT threshold, to start filing online from April 2019 rather than April 2018.

The timetable for commencing quarterly reporting under MTD will be determined by the accounting period that starts on or after these dates:

- From 6 April 2018: Unincorporated businesses (#) with turnover exceeding the VAT registration threshold (\*) will be required to report their business income, expenses and profits
- From 6 April 2019: Unincorporated businesses (#) with turnover exceeding £10,000 will be required to report their business income, expenses and profits
- From 1 April 2019: All VAT registered businesses (#) will be required to submit their VAT returns through software
- From 1 April 2020: All incorporated businesses (i.e. limited companies) which pay corporation tax must report their business income and expenses subject to corporation tax

For example, a business with turnover below the VAT threshold and an accounting date of 31 March will not have to make quarterly digital reports until the accounting period beginning 1 April 2020.

\* = The VAT threshold is set to be £85,000 from 6 April 2017.

# = The reference to businesses includes sole traders, partnerships, property businesses and buy-to-let landlords. Therefore, such people will remain within the quarterly reporting regime unless business turnover or gross rental income is no more than £10,000.



The 6 April 2018 date still represents a very tight deadline for software developers to design, test and roll-out their Application Programme Interfaces (API). API will act as a software link and gateway between a business's accounting software and HM Revenue & Customs' systems.

Therefore, use the extra time to start planning and consider moving to a leading software provider now and possibly using an online recordkeeping provider. The latter may make any review and assistance required by us as your accountant easier if we can access your records online anytime.

The expectation of the accountancy profession is that compliant software will only be released shortly before April 2018.

Of course, HMRC will want to introduce late submission penalties and interest on late payments of quarterly tax.

### Businesses still rely on paper-based records

Research by the IT Faculty of the Institute of Chartered Accountants in England & Wales back in March 2016 showed that 75% of businesses surveyed do not currently maintain their accounting records electronically using accounting software.

Many small businesses rely on Excel based spreadsheets to keeping their accounting records.

The research found that a greater burden will fall on sole traders with 82% of one person businesses needing to make the move to digital record keeping.

# All Paul Limited

## About us

All Paul Limited is a modern, independent and proactive firm of Chartered Certified Accountants based in north Leeds.

We provide all the usual essential services that you'd expect e.g. annual accounts, self-assessment tax return preparation, recordkeeping and payroll. In addition, we offer tax planning, business set-up and limited company formation as well as Sage 50 software training and support.

Our objective is simple; to be viewed by our clients as the first point of contact for all their financial, advisory and compliance needs. We achieve this by providing sensible advice and tailored solutions to help clients achieve their commercial and personal goals.

The firm is run by Paul Clifton who offers a wide range of accounting and tax expertise to local businesses. Paul has worked with smaller owner-managed businesses, through firms of Chartered Accountants, for over a quarter of a century.

He works with business owners providing them with practical help and advice on a day-to-day basis.



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Our clients are located mainly in north Leeds, but they also come from the surrounding towns. They mainly operate as limited companies and sole traders. Alongside all of the services we offer to the business, we always recognise the importance of the personal circumstances of the business owner.

If you have any questions about the implications of the above, either for you or your business, and would like further advice then please do give us a call. We provide out-of-hours flexible appointments. We are happy to meet you in the evening when you may have more time. So call **All Paul Limited** today on 0113 225 2232 or email us at [info@all-paul.co.uk](mailto:info@all-paul.co.uk). More details about our services can be found by visiting our website at [www.all-paul.co.uk](http://www.all-paul.co.uk).

## What our clients say about us

"A highly professional service, quick to respond, attention to detail and knowledgeable. I just know I'm in safe hands with All Paul Limited".  
Nick S. YorTours, Harrogate

"I was impressed by the breadth of your financial knowledge and have every confidence to recommend you to other people." Karl H. Martin James  
Property Services, Leeds

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